



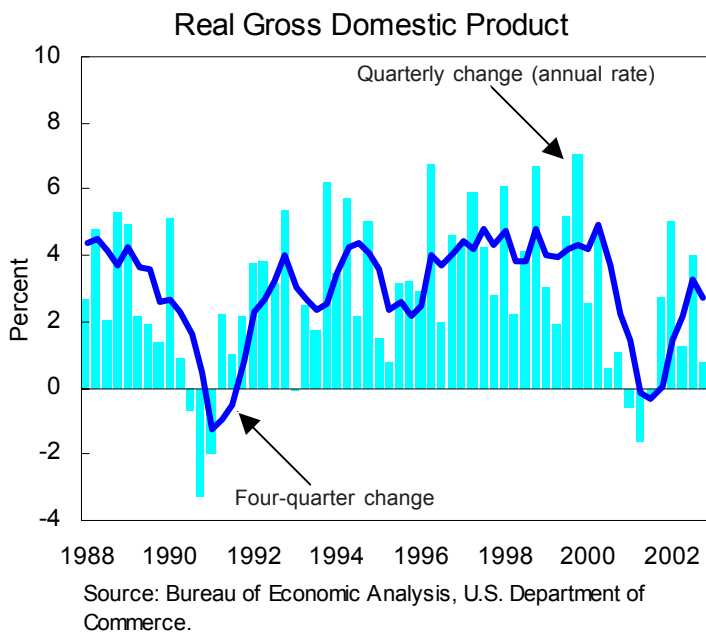
# WEEKLY ECONOMIC DIGEST



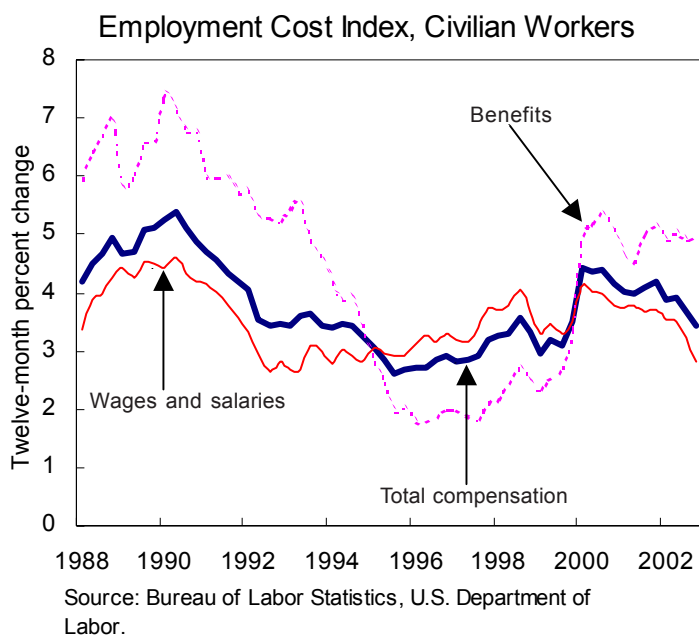
JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF  
REPRESENTATIVE PETE STARK (D-CA)

February 4, 2003

## Output and Compensation Slowed at the End of 2002



- **Economic growth slowed in the fourth quarter.** Real (inflation adjusted) gross domestic product (GDP) grew at an annual rate of just 0.7 percent in the fourth quarter of 2002, according to preliminary estimates by the Department of Commerce. That growth of real GDP, which was significantly below the 4 percent pace of the third quarter, reflected a sharp deceleration in the growth of personal consumption expenditures, a reduction in the stock of inventories held by businesses, and a drop in exports.
- **Compensation growth continued to slow.** The Employment Cost Index rose by 0.7 percent from September to December, after growing by 0.8 percent over the preceding three months. That measure of total compensation of civilian workers in December was 3.4 percent higher than it was a year earlier, with benefits growing faster than wages and salaries. Wages and salaries for private industry workers were only 2.7 percent above year-ago levels in December, the slowest growth in nearly a decade and an indication of weak employment conditions.



- **Construction spending outpaced expectations.** Construction spending rose by 1.2 percent in December, well ahead of the 0.5 percent that financial markets had expected. That rise reflected continued robust gains in residential construction along with increases in public construction. However, real nonresidential building fell by 2.3 percent to a level 15.2 percent below that of a year earlier.
- **Employment indicators remain weak.** New claims for unemployment insurance averaged 384,000 over the four weeks ending on January 25, suggesting that the economy is still not creating jobs. Moreover, a national survey of purchasing managers indicated that manufacturing employment may have continued to decline in January. Market analysts estimate that Friday's report on the January employment situation will show little change in the overall unemployment rate.

<b>Economy At A Glance</b>	2003 Jan	2002 Dec	2002 Nov	2002 Oct	2002 Qrt 4	2002 Qrt 3	2002 Qrt 2	2002 Qtr 1	2002	2001
<b>Economic Activity</b>										
Real GDP (% growth)					0.7	4.0	1.3	5.0	2.4	0.3
Industrial Production (% growth)		-2.4	1.2	-5.8	-2.4	3.4	4.4	1.4	1.7	-5.7
Capacity Utilization (Level, %)		75.4	75.6	75.6	75.5	76.2	75.7	75.1	75.6	77.3
Civilian Unemployment Rate (Level, %)*		6.0	6.0	5.7	5.9	5.7	5.9	5.6	5.8	4.8
Housing Starts (Thousands)		1835	1747	1660	1747	1697	1667	1725	1709	1603
Real Disposable Personal Income (% growth)		4.9	3.7	2.4	2.6	3.1	3.9	14.5	4.5	1.8
Retail Sales (% growth)		15.4	11.4	1.2	1.2	6.6	4.5	-3.2	3.4	3.9
Personal Saving Rate (Level, %)		4.1	4.5	4.5	4.3	3.8	4.0	3.5	3.9	2.3
<b>Inflation &amp; Productivity</b>										
CPI-U Inflation, All Items (% growth)		1.2	1.2	3.7	2.4	1.9	3.4	1.4	1.6	2.8
Core CPI-U Inflation (% growth)		1.2	2.4	2.4	1.8	2.0	2.2	2.3	2.3	2.7
Compensation per Hour (% growth)					2.8	2.4	4.5	3.6	3.3	4.1
Output per Hour (% growth)*						5.1	1.7	8.6		1.1
<b>Financial Markets</b>										
T-Bill Rate, 3-month (Level, %)	1.2	1.2	1.2	1.6	1.3	1.6	1.7	1.7	1.6	3.4
T-Note Rate, 10-years (Level, %)	4.1	4.0	4.1	3.9	4.0	4.3	5.1	5.1	4.6	5.0
Federal Funds Rate (Level, %)	1.2	1.2	1.3	1.8	1.4	1.7	1.8	1.7	1.7	3.9
Dow Jones Industrial Avg (Index level)	8475	8527	8626	8048	8400	8488	9913	10105	9226	10189

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and, Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

\* Subject to revision this week.

#### Upcoming Economic Releases:

- **Productivity and Costs, Fourth-quarter 2002** [Release: Thursday, February 6]
- **The Employment Situation, January** [Release: Friday, February 7]
- **Consumer Credit, December** [Release: Friday, February 7]